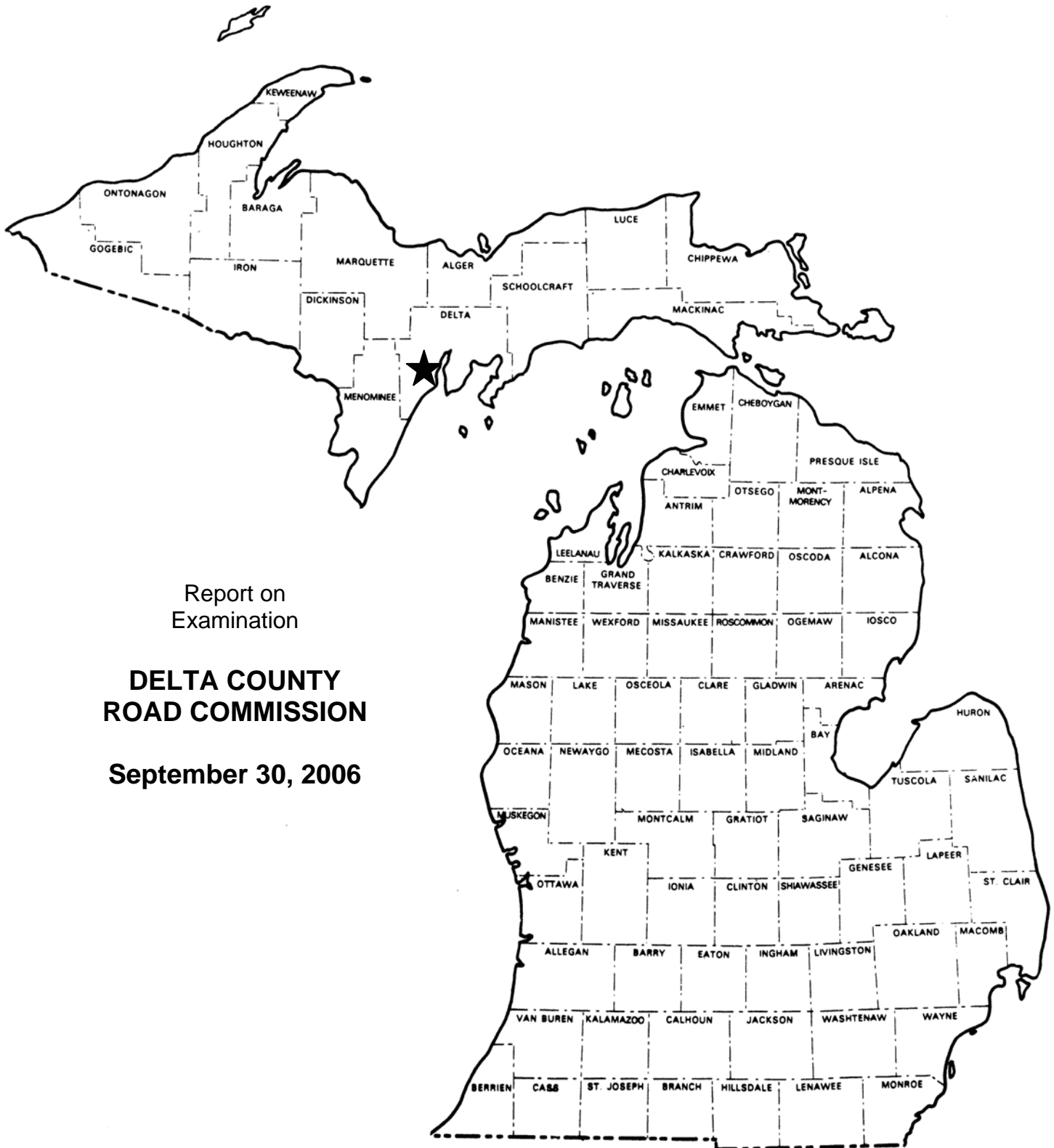


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**DELTA COUNTY
ROAD COMMISSION**

September 30, 2006

DELTA COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Mike Larrabee
Chairman

Peter Stropich
Vice-Chairman

John LaTulip
Member

Roger VanDrese
Managing Director

Robert VanEffen
Assistant Managing Director

Amy J. Tatrow
Finance Director

Martha L. Holtslander
Office Clerk

COUNTY POPULATION--2000
38,473

STATE EQUALIZED VALUATION--2006
\$1,313,278,170



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

January 18, 2007

Delta County Road Commission
Board of County Road Commissioners
3000 32nd Avenue North
Escanaba, Michigan 49829-9315

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Delta County Road Commission, a component unit of Delta County, Michigan, as of and for the year ended September 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delta County Road Commission, as of September 30, 2006 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2007, on our consideration of the Delta County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance

with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 8 and the budgetary comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Delta County Road Commission's basic financial statements. The accompanying supplementary and related information presented as Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

DELTA COUNTY ROAD COMMISSION

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DELTA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Delta County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2006. This discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

DELTA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Report of the Road Commission's Major Fund

The fund financial statements begin on page nine and provide detailed information about the major fund. The Road Commission has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 17.70% or \$2,211,202 from \$12,489,147 to \$14,700,349 for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net or related debt) are considered restricted.

The net capital assets increased by \$2,347,854 primarily as a result of the significant amount of preservation/structural improvement projects completed during 2006.

DELTA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net assets as of the year ended September 30, 2006 are as follows:

	Governmental Activities 09/30/05	Governmental Activities 09/30/06	Variance	Percentage
Current and Other Assets	\$ 3,439,097	\$ 3,157,975	\$ (281,122)	-8.17%
Net Capital Assets	<u>15,948,224</u>	<u>18,209,400</u>	<u>2,261,176</u>	<u>14.18%</u>
Total Assets	<u>19,387,321</u>	<u>21,367,375</u>	<u>1,980,054</u>	<u>10.21%</u>
Current Liabilities	1,683,619	976,111	(707,508)	-72.48%
Noncurrent Liabilities	<u>5,214,555</u>	<u>5,690,915</u>	<u>476,360</u>	<u>8.37%</u>
Total Liabilities	<u>6,898,174</u>	<u>6,667,026</u>	<u>(231,148)</u>	<u>-3.35%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	10,803,224	13,069,056	2,265,832	20.97%
Restricted	<u>1,685,923</u>	<u>1,631,293</u>	<u>(54,630)</u>	<u>-3.24%</u>
Total Net Assets	<u><u>\$ 12,489,147</u></u>	<u><u>\$ 14,700,349</u></u>	<u><u>\$ 2,211,202</u></u>	<u><u>17.70%</u></u>

DELTA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table presents a two year comparison of the Statement of Activities:

	<u>2005</u>	<u>2006</u>	<u>Difference</u>	<u>Percent</u>
Program Revenue				
Charges for Services	\$ 1,365,878	\$ 1,253,812	\$ (112,066)	-8.94%
Operating Grants and Contributions	3,976,119	4,114,019	137,900	3.35%
Capital Grants and Contributions	2,152,061	2,122,850	(29,211)	-1.38%
General Revenue				
Gain on Equipment Disposal	<u>27,766</u>	<u>15,878</u>	<u>(11,888)</u>	<u>-74.87%</u>
Total Revenue	<u>7,521,824</u>	<u>7,506,559</u>	<u>(15,265)</u>	<u>-0.20%</u>
Expenses				
Primary Routine and Preventive Maintenance	1,426,537	1,524,407	97,870	6.86%
Local Routine and Preventive Maintenance	1,152,246	1,089,559	(62,687)	-5.44%
State Trunkline Maintenance	1,234,868	1,011,274	(223,594)	-18.11%
Net Equipment Expense	505,178	473,056	(32,122)	-6.36%
Net Administrative Expense	473,320	358,421	(114,899)	-24.28%
Maintenance for Other Units	34,521	21,388	(13,133)	-38.04%
Infrastructure Depreciation Expense	318,964	344,448	25,484	7.99%
Compensated Absences	29,762	(42,341)	(72,103)	-242.27%
Interest Expense	<u>261,134</u>	<u>253,443</u>	<u>(7,691)</u>	<u>-2.95%</u>
Total Expenses	<u>5,436,530</u>	<u>5,033,655</u>	<u>(402,875)</u>	<u>-7.41%</u>
Increase in Net Assets	<u>\$ 2,085,294</u>	<u>\$ 2,472,904</u>	<u>\$ 387,610</u>	<u>18.59%</u>

The total revenue increased by less than 1 percent from 2005 to 2006, there were significant variances between certain revenue accounts. The Federal/State grants increased during the year and the State Trunkline decreased.

The most significant change in the expenses were related to the decrease in State Trunkline expenses, which decreased by \$223,594. The net administrative expense decreased as a result of a payoff of earned benefits to an employee who left during 2005. The compensated absences decreased as a result of two employees retiring during 2006.

We feel that Road Commission revenue and expenditures will always vary from year to year depending on so many factors, such as level of State/Federal funding for capitalization projects, level of local contributions for both maintenance and preservation, weather conditions that may require more or less maintenance, and State Trunkline maintenance and nonmaintenance expenses and revenue which vary from year to year.

DELTA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

For the year ended September 30, 2006, the fund balance of the General Operations Fund decreased by \$71,315 (not including the restatement of the beginning fund balance) compared to an increase of \$40,930 in the fund balance for the fiscal year ended September 30, 2005. Total operating revenues were \$7,506,559, a decrease of \$15,266 as compared to last year. This change in revenues resulted from an increase in the number of Federal, State, and other contributions which was offset by a decrease in township contributions for local projects and State Trunkline expenditures for the year.

Total expenditures were \$7,536,944, an increase of \$56,049 in comparison to last year. This change in expenditures is primarily the result of a decrease in debt payments and an overall increase in wages and fringe benefits.

	2005	2006	Variance	%
Revenues				
Licenses and Permits	\$ 14,755	\$ 15,065	\$ 310	2.10%
Federal Grants	648,789	1,236,824	588,035	90.64%
State Grants	4,779,835	4,498,053	(281,782)	-5.90%
Contributions From Local Units	642,843	448,939	(193,904)	-30.16%
Charges for Services	1,351,112	1,014,724	(336,388)	-24.90%
Interest and Rents	26,487	53,053	26,566	100.30%
Other Revenue	58,004	239,901	181,897	313.59%
Total Revenues	<u>7,521,825</u>	<u>7,506,559</u>	<u>(15,266)</u>	<u>-0.20%</u>
Expenditures				
Public Works	7,459,532	7,562,071	102,539	1.37%
Capital Outlay--Net	(432,645)	(391,664)	40,981	-9.47%
Debt Service	454,008	366,537	(87,471)	-19.27%
Total Expenditures	<u>7,480,895</u>	<u>7,536,944</u>	<u>56,049</u>	<u>0.75%</u>
Excess of Expenditures Over Revenues	40,930	(30,385)	(71,315)	174.24%
Fund Balance--Beginning	1,992,838	2,033,768	40,930	2.05%
Restatement to Beginning		(175,025)	(175,025)	100.00%
Fund Balance--Ending	<u>\$ 2,033,768</u>	<u>\$ 1,828,358</u>	<u>\$ (205,410)</u>	<u>-10.10%</u>

DELTA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The original revenue budget for 2006 was \$7,800,000, which was \$293,441 more than the actual revenue received for the year. The final amended budget was \$7,372,568, which was \$133,991 less than the actual revenue received. This was due, in large part, to the Road Commission receiving more funds from certain Federal, State and local projects during the year than originally planned.

The Road Commission's original expenditure budget was projected at \$6,736,855, while actual expenditures were \$7,536,944 resulting in actual expenditures being more than budgeted by \$800,714. There were budget amendments made throughout the year, however, the actual expenditures exceeded the final amended budget by \$48,449. This was primarily due to the Road Commission having more costs associated with maintenance and projects on the Local and Primary County road system.

The 2006 actual revenue and expenditures were also both affected by a contribution from private sources which was overlooked during budget amendments – and then were increased as the books were being closed out. A new subdivision road was taken into our system and had to be recorded as capital expenditure as well as a revenue source.

DELTA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

As of September 30, 2006, the Road Commission had \$18,209,400 invested in capital assets as follows:

	09/30/05	09/30/06	Percentage of Change
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 1,410,797	\$ 1,412,362	0.11%
Construction in Progress	133,637	301,974	55.75%
Infrastructure-Land and Improvements	822,541	1,027,737	19.97%
Subtotal	<u>2,366,975</u>	<u>2,742,073</u>	<u>13.68%</u>
Capital Assets Being Depreciated			
Buildings	6,785,221	6,787,854	0.04%
Road Equipment	6,313,142	6,529,143	3.31%
Shop Equipment	121,422	112,926	-7.52%
Office Equipment	113,073	81,707	-38.39%
Engineer's Equipment	51,531	38,933	-32.36%
Infrastructure--Bridges	153,037	1,260,284	87.86%
Infrastructure--Roads	6,992,528	8,610,129	18.79%
Subtotal	<u>20,529,954</u>	<u>23,420,976</u>	<u>12.34%</u>
Total Capital Assets	22,896,929	26,163,049	12.48%
Total Accumulated Depreciation	<u>(7,035,383)</u>	<u>(7,953,649)</u>	<u>11.55%</u>
Total Net Capital Assets	<u><u>\$ 15,861,546</u></u>	<u><u>\$ 18,209,400</u></u>	<u><u>12.89%</u></u>

The Road Commission reported the infrastructure and other assets during the current year in the amount of \$3,488,553. The infrastructure recorded, during 2006, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions. The Road Commission has, as of this year, has not retroactively reported infrastructure assets (assets acquired after 1980) as recommended by GASB No. 34.

This year's major capital asset additions included the following:

Construction and Reconstruction of Bridges	\$ 2,724,848
Various Resurfacing Projects and Related Land/Right-of-Way	205,196
Road Constuction in Progress	242,702
Land and Improvements	1,565
Road Equipment	303,463
Building	2,633
Other Various Equipment	<u>8,146</u>
Total Additions	<u><u>\$ 3,488,553</u></u>

DELTA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

There were no new installment purchase agreements entered into during 2006; all the equipment was acquired with Road Commission funds.

Debt

At the year end, the Road Commission had no new installment agreement purchases or other debt obligations. The Road Commission has an outstanding limited debt obligation. During 2006, \$110,000 was paid in principal, leaving a balance of \$5,035,000. Bonds issued in prior years have been paid.

More detailed information about the Road Commission's long-term liabilities for vested employee benefits is presented in Note H to the financial statements.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. The Road Commission derives approximately 54% of its revenue from the fuel tax collected in 2006. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed. The Road Commission received approximately 15% of its revenues from township contributions during 2006. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2007, we expect to receive \$2,415,537 in Federal and State aid for road projects, some of which was deferred from 2006.

The above items were considered when adopting the budget for 2007. Amounts available for appropriation in the 2007 budget are \$7,999,537.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Delta County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Delta County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Delta County administrative offices at: P.O. Box 527, Stephenson, MI, 49887.

DELTA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2006

EXHIBIT A

ASSETS

Cash	\$ 113,753
Investments	1,237,485
Accounts Receivable	
State--Trunkline Maintenance	37,135
Michigan Transportation Fund	643,269
State--Other	9,170
Due From Other Units of Government	10,770
Due on County Road Agreements	199,041
Sundry Accounts	76
Inventories	
Road Materials	623,045
Equipment Parts and Materials	184,626
Prepaid Expenses	33,771
Restricted Cash	834
Long-Term Contract Receivable	65,000
Capital Assets (Net of Accumulated Depreciation)	<u>18,209,400</u>
 Total Assets	 <u>21,367,375</u>

LIABILITIES

Current Liabilities	
Accounts Payable	567,832
Due to State of Michigan	244,342
Accrued Liabilities	55,233
Permit Fees	1,215
Driveway Snow Plowing Deposits	2,145
Accrued Interest Payable	105,344
Noncurrent Liabilities	
Advance From State	458,850
Bonds Payable Due Within One year	115,000
Bonds Payable Due in More Than One Year	4,920,000
Vested Employee Benefits Payable	<u>197,065</u>
 Total Liabilities	 <u>6,667,026</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	13,069,056
Restricted for County Roads	<u>1,631,293</u>
 Total Net Assets	 <u>\$14,700,349</u>

The Notes to Financial Statements are an integral part of this statement.

DELTA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

EXHIBIT B

Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,524,407
Local Road Routine and Preventive Maintenance	1,089,559
State Trunkline Maintenance	1,011,274
Net Equipment Expense	473,056
Net Administrative Expense	358,421
Maintenance for Other Units	21,388
Infrastructure Depreciation	344,448
Compensated Absences	(42,341)
Interest Expense	253,443
Total Program Expenses	<u>5,033,655</u>
Program Revenue	
Charges for Services	
License and Permits	15,065
Charges for Services	1,238,747
Operating Grants and Contributions	
Michigan Transportation Funds	3,872,072
Contributions	188,894
Investment Earnings	53,053
Capital Grants and Contributions	
Federal Grants	1,236,824
State Grants	625,981
Contributions	260,045
Total Program Revenue	<u>7,490,681</u>
Net Program Revenue	<u>2,457,026</u>
General Revenue	
Gain on Equipment Disposal	15,878
Total General Revenues	<u>15,878</u>
Change in Net Assets	<u>2,472,904</u>
Net Assets	
Beginning of Year	12,489,149
Restatement to Net Assets (See Note F)	(261,704)
Restated Net Assets--Beginning of Year	<u>12,227,445</u>
End of Year	<u>\$ 14,700,349</u>

The Notes to Financial Statements are an integral part of this statement.

**DELTA COUNTY ROAD COMMISSION
BALANCE SHEET
September 30, 2006**

EXHIBIT C

**GOVERNMENTAL
FUND TYPE**

ASSETS

	General Operating Fund
Cash	\$ 113,753
Investments	1,237,485
Accounts Receivable	
State Trunkline Maintenance	37,135
Michigan Transportation Fund	643,269
State--Other	9,170
Due From Other Governmental Units	10,770
Sundry Accounts	76
Due on County Road Agreements	199,041
Inventories	
Road Materials	623,045
Equipment Parts and Materials	184,626
Prepaid Expenses	33,771
Restricted Cash	834
Long-Term Contracts Receivable	65,000
Total Assets	<u>\$ 3,157,975</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 567,832
Due to State	244,342
Accrued Liabilities	55,233
Advances	
Permit Fees	1,215
Private Driveway Plowing	2,145
State Trunkline Equipment Purchase	375,107
State Trunkline Maintenance	83,743
Total Liabilities	<u>1,329,617</u>
Fund Equities	
Fund Balance	
Reserved for	
Inventory	807,671
Long-Term Receivables	65,000
Unreserved and Undesignated	955,687
Total Fund Equities	<u>1,828,358</u>
Total Liabilities and Fund Equities	<u>\$ 3,157,975</u>

The Notes to Financial Statements are an integral part of this statement.

**DELTA COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE
SHEET FUND BALANCE TO THE
STATEMENT OF NET ASSETS
For the Year Ended September 30, 2006**

EXHIBIT D

Total Governmental Fund Balance	\$ 1,828,358
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	18,209,400
---------------------------------------------------------------------------------------------------------------------------	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.

Bonds Payable	\$(5,035,000)	
Compensated Absences	(197,065)	(5,232,065)

The interest accrued up to the end of the year, but not due until the following year.	<u>(105,344)</u>
---------------------------------------------------------------------------------------	------------------

Net Assets of Governmental Activities	<u><u>\$ 14,700,349</u></u>
---------------------------------------	-----------------------------

The Notes to Financial Statements are an integral part of this statement.

**DELTA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2006**

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Licenses and Permits	\$ 15,065
Federal Grants	1,236,824
State Grants	4,498,053
Contributions From Local Units	448,939
Charges for Services	1,014,724
Interest and Rents	53,053
Other Revenue	<u>239,901</u>
Total Revenues	<u>7,506,559</u>
Expenditures	
Public Works	7,562,071
Capital Outlay--Net	(391,664)
Debt Service	<u>366,537</u>
Total Expenditures	<u>7,536,944</u>
Excess of Revenues Over (Under) Expenditures	(30,385)
Fund Balance--October 1, 2005	2,033,768
Restatement to Fund Balance--October 1, 2005 (See Note F)	(175,025)
Restated Fund Balance--October 1, 2005	<u>1,858,743</u>
Fund Balance--September 30, 2006	<u><u>\$ 1,828,358</u></u>

The Notes to Financial Statements are an integral part of this statement.

**DELTA COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds	\$ (30,385)
------------------------------------------------------	-------------

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

2,347,854

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the State of Net Assets

110,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)

45,435

Change in Net Assets of Governmental Activities

\$ 2,472,904

The Notes to Financial Statements are an integral part of this statement.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The Delta County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners, and property taxes would be levied under the taxing authority of the county, as approved by the county electors. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Delta County Road Commission, a discretely presented component unit of Delta County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Delta County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

When both restricted and restricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Restricted Cash

Funds classified as restricted cash at September 30, 2006 consists of \$834 to be used for debt retirement.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are priced at cost as determined on the average cost method. Inventory items are charged to road construction and equipment maintenance, and repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Delta County Road Commission as assets with an initial individual cost of more \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Compensated Absences (Vacation and Sick Leave)

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year; and are permitted to carry over up to 2 weeks vacation, to be used by June 1st of the following year.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Each regular employee shall earn sick leave with pay at the rate of 8 hours for each month of employment in which the employee works at least 12 days and has qualified as a regular employee. Sick leave may be accumulated without limitation. The Road Commission's sick leave benefits policy provides for payment of 50% of the accumulated benefits, to a maximum of 520 hours, when an employee takes a bona fide retirement or a bona fide disability termination. Those benefits payable upon retirement or disability represent the vested sick leave benefits.

Use of Estimates

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Deferred Revenue

Deferred revenue represents amounts that do not meet the available criteria, such as grants received before the expenditure is incurred.

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's Chief Administrative Officer (managing director) prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year and is approved by the board. Also, the board has authorized the chief administrative officer to amend the Road Commission's budget when necessary, by transferring up to 15% from one line-item to another. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Budget Violations

Public Act 2 of 1968, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Total actual 2006 expenditures exceeded the total amended budget by a total of \$48,449.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Expenditures by activity that exceeded appropriations are as follows:

	Final Budget	Actual	Variance
Local Road Construction		\$ 103,000	\$ (103,000)
State Trunkline Maintenance	\$ 860,000	862,864	(2,864)
State Trunkline Non-Maintenance	148,000	148,410	(410)
Net Equipment Expense	444,302	458,640	(14,338)

NOTE D--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated three financial institutions for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

	Operating Fund
Cash	\$ 113,753
Investments	1,237,485
Restricted Cash	834
Total	<u>\$ 1,352,072</u>

Restricted cash at September 30, 2006 consists of \$834 in interest earned on the separate bank account that is used for the retirement of the 1999 MTF bond debt.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 114,387
Investments in Money Market and Government Operating Money Market	1,237,485
Petty Cash and Cash on Hand	<u>200</u>
Total	<u><u>\$ 1,352,072</u></u>

The bank balance of the Road Commission's deposits is \$252,142, of which \$100,834 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to money markets.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

As of September 30, 2006, the Road Commission had the following investments that are nonrisk-categorized:

	Reported Amount (Fair Value)
Investments	
Money Market Fund	<u>\$ 1,237,485</u>
Total Primary Government	<u><u>\$ 1,237,485</u></u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds (money market fund) do not have a rating provided by a nationally recognized statistical rating organization.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE E--RESERVE FOR LONG-TERM RECEIVABLES

At September 30, 2006, there was a balance of \$65,000 for long-term receivables. The balance is the result of the Road Commission granting an extended period of time for two townships to pay their township road agreements (\$20,000 for Cornell Township and \$45,000 for Garden Township). Since the amounts are not expected to be received within 60 days, it is reserved from the fund balance available for current operations.

NOTE F--RESTATEMENT OF FUND BALANCE AND NET ASSETS

On November 11, 2004, the Michigan County Road Commission Self-Insurance Pool (the pool) made a calculation error when calculating the refund payable to the Road Commission for the year 1994-1995 and subsequently gave the Road Commission excess refunds to which they were not entitled for the periods of 1996 through 2004. The total excess refunds amounted to \$601,431 and was to be repaid by either making annual payments of \$50,000 or applying the amount of the refund to which it was entitled for the preceding fiscal year, whichever is greater. This liability was not reflected on the Road Commission's records in the prior period. A restatement of fund balance and net assets was made to reflect the balance of the liability:

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--RESTATEMENT OF FUND BALANCE AND NET ASSETS (Continued)

	Original 09/30/05	Restatement	Restated 09/30/05
Fund Balance			
Primary Fund Balance	\$ 1,447,167	\$ (93,389)	\$1,353,778
Local Fund Balance	121,587	(64,737)	56,850
County Fund Balance	465,013	(16,899)	448,114
Total Fund Balance	<u>\$ 2,033,767</u>	<u>\$ (175,025)</u>	<u>\$1,858,742</u>

In addition to the above restatement of fund balance/net assets, the September 30, 2005 net assets did not include \$86,677 of accumulated depreciation for the state portion of the chemical facility structures. Listed below is the effect on the net assets at September 30, 2005:

	Original 09/30/05	Restatement	Restated 09/30/05
Net Assets			
Investment in Capital Assets			
Net of Related Debt	\$10,803,225	\$ (86,679)	\$10,716,546
Restricted for County Road	1,685,924	(175,025)	1,510,899
Total Net Assets	<u>\$12,489,149</u>	<u>\$ (261,704)</u>	<u>\$12,227,445</u>

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--CAPITAL ASSETS

Following is a summary of the changes in the capital assets:

	Notes	Account Balances 09/30/05	Additions	Deductions	Account Balances 09/30/06
Capital Assets Not Being Depreciated					
Land and Improvements		\$ 1,410,797	\$ 1,565		\$ 1,412,362
Construction In Progress--Infrastructure	1	133,637	242,702	\$ 74,365	301,974
Infrastructure Land Improvements	1	822,541	205,196		1,027,737
Subtotal		2,366,975	\$ 449,463	74,365	2,742,073
Capital Assets Being Depreciated					
Buildings and Improvements		6,785,221	2,633		6,787,854
Road Equipment		6,313,142	303,463	87,462	6,529,143
Shop Equipment		121,422	2,197	10,693	112,926
Office Equipment		113,073	5,949	37,315	81,707
Engineers' Equipment		51,531		12,598	38,933
Infrastructure--Bridges	1	153,037	1,107,247		1,260,284
Infrastructure--Roads	1	6,992,528	1,617,601		8,610,129
Total		20,529,954	3,039,090	148,068	23,420,976
Less Accumulated Depreciation					
Buildings and Improvements		1,324,471	196,123		1,520,594
Road Equipment		4,987,526	510,283	87,383	5,410,426
Shop Equipment		100,519	4,572	10,693	94,398
Office Equipment		79,926	8,701	37,315	51,312
Engineers' Equipment		43,306	1,315	11,785	32,836
Infrastructure--Bridges		9,129	(6,068)		3,061
Infrastructure--Roads		490,506	350,516		841,022
Total		7,035,383	1,065,442	147,176	7,953,649
Net Capital Assets Being Depreciated		13,494,571	3,039,090	1,066,334	15,467,327
Total Net Capital Assets		\$ 15,861,546	\$ 3,488,553	\$ 1,140,699	\$ 18,209,400

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--CAPITAL ASSETS (Continued)

Note 1: There was a reclassification of the September 30, 2005 infrastructure balances, which removed the land improvements from the capital assets being depreciated to the capital assets not being depreciated, in accordance with the Michigan Department of Treasury's Uniform Chart of Accounts. There was also a restatement in the buildings accumulated depreciation related to the Chemical Storage Facilities, see Note F for more details. Listed below is the effect of the reclassification and restatement to the capital assets:

	Original 09/30/05 Balance	Restatement/ Reclassification	Adjusted 09/30/05 Balance
Capital Assets Not Being Depreciated			
Infrastructure Land Improvements		\$ 822,541	\$ 822,541
Capital Assets Being Depreciated			
Infrastructure--Bridges	\$ 161,092	(8,055)	153,037
Infrastructure--Road	7,807,014	(814,486)	6,992,528
Accumulated Depreciation			
Buildings	<u>1,237,792</u>	<u>89,679</u>	<u>1,327,471</u>
Total	<u>\$ 9,205,898</u>	<u>\$ 89,679</u>	<u>\$ 9,295,577</u>

Depreciation expense was charged to programs of the Road Commission as follows:

Net Equipment Expense	
Direct Equipment	\$ 510,283
Indirect Equipment	173,426
Distributive Expense	1,074
Net Administrative Expenses	21,796
Infrastructure Depreciation Expense	<u>344,448</u>
Total Depreciation Expense	<u>\$ 1,051,027</u>

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT

The changes in long-term debt of the Road Commission may be summarized as follows:

	Balances 09/30/05	Additions (Reductions)	Balances 09/30/06	Due Within One Year
MTF Bonds Payable	\$ 5,145,000	\$ (110,000)	\$ 5,035,000	\$ 115,000
Compensated Absences	<u>239,407</u>	<u>(42,342)</u>	<u>197,065</u>	
Total	<u>\$ 5,384,407</u>	<u>\$ (152,342)</u>	<u>\$ 5,232,065</u>	<u>\$ 115,000</u>

In May 1999, the County of Delta approved a Delta County Road Commission Michigan Transportation Fund Bond Issue for the purpose of constructing Road Commission buildings. The issue was for \$5,690,000, payable over the period 1999 to 2028 at interest rates that range from 4.6% to 7.0%. The annual debt service requirements are as follows:

	Principal	Interest	Total
2007	\$ 115,000	\$ 250,180	\$ 365,180
2008	120,000	244,775	364,775
2009	125,000	239,140	364,140
2010	135,000	233,160	368,160
2011	140,000	226,835	366,835
2012	150,000	220,090	370,090
2013	160,000	212,725	372,725
2014	165,000	204,843	369,843
2015	175,000	196,425	371,425
2016-2020	1,030,000	835,525	1,865,525
2021-2025	1,350,000	536,361	1,886,361
2026-2028	<u>1,370,000</u>	<u>147,081</u>	<u>1,517,081</u>
	<u>\$ 5,035,000</u>	<u>\$3,547,140</u>	<u>\$8,582,140</u>

Vacation Benefits

Vacation is earned in varying amounts depending on the number of years of service of an employee. Road Commission policy provides that two weeks of vacation benefits earned in the current calendar year may be carried over to the subsequent calendar year. All carried over vacation must be used by June 1st of the subsequent year.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--LONG-TERM DEBT (Continued)

Sick Leave Benefits

Each regular full-time employee receives 8 hours of sick leave per month. There is no limitation on the accumulation of unused sick leave time. Any employee who retires at age 60 or becomes disabled with 10 years of service and upon proper notice, shall be paid 50% of their accumulated sick leave, up to a maximum of 520 hours. An employee may use up to 32 hours of sick leave each year as personal leave time.

NOTE I--EMPLOYEE PENSION PLANS

Description of Plan and Plan Assets

The Delta County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, duty-connected death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.00% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2005.

Nonunion Employees Plan--Description of Plan and Plan Assets

The Delta County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.0%, 2.5% and 2.25% times the final average compensation (FAC) for teamsters, administration and managing director and supervisory staff, respectively. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12a) State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H-EMPLOYEE PENSION PLANS (Continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which do not require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate; the rate was 16.99% for teamsters, 56.56% for administrative staff, 10.47% for the managing director and 0% for supervisory (which started in 2004) for the calendar year ending December 31, 2005.

Annual Pension Cost

During the calendar year ended December 31, 2005, the Road Commission's contributions totaling \$306,330 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit.

Significant actuarial assumptions used include a long-term investment yield rate of 8%, annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases and the assumption that benefits will increase 2.5% per year (annually) after retirement.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 279,871	100%	\$0
2004	312,118	100%	\$0
2005	306,330	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/03	\$ 2,601,444	\$5,806,310	\$ 3,204,866	45%	\$ 1,546,860	207%
12/31/04	2,962,602	7,057,321	4,094,719	42%	1,752,568	234%
12/31/05	3,314,073	7,085,690	3,771,617	47%	1,517,923	248%

DELTA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefit claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

County road commissions in the State of Michigan established and created a trust fund known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE J--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2006, the Federal Grants received and expended by the Road Commission was \$1,191,702 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit.

During the fiscal year ended September 30, 2006, the Road Commission received and expended Federal grants in the amount of \$45,122 for negotiated projects. Negotiated projects are projects that are performed by the Road Commission and are subject to single audit requirements, if the amount expended is \$500,000 or more. A single audit was not performed during the fiscal year ended September 30, 2006.

**DELTA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES--BUDGET AND ACTUAL
For the Year Ended September 30, 2006**

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 15,000	\$ 15,000	\$ 15,065	\$ 65
Federal Grants				
Contracted				
Critical Bridges	400,000	200,250	200,000	(250)
Surface Transportation Program	800,000	775,484	761,519	(13,965)
Economic Development D Funds	300,000	234,200	230,183	(4,017)
Negotiated				
Forest Highway Funds	110,000	45,000	45,122	122
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,575,000	2,492,000	2,518,147	26,147
Local Road	1,175,000	1,095,000	1,108,958	13,958
Urban Primary	140,000	136,000	138,126	2,126
Urban Local	60,000	58,000	60,897	2,897
Snow Removal	40,000	34,000	35,944	1,944
Critical Bridge	345,000	258,300	259,623	1,323
Economic Development Fund				
Rural Primary (D)	175,000	167,500	163,046	(4,454)
Forest Road (E)	187,500	187,500	187,483	(17)
Target Industries (A)	-	15,829	15,829	-
Contributions--Local Units				
Townships	435,000	507,000	448,939	(58,061)
Charges for Services				
State Trunkline Maintenance	1,000,000	860,000	863,023	3,023
State Trunkline Non-Maintenance	-	148,000	148,410	410
Subdivision and Road Abandonment Fees	-	665	990	325
Salvage Sales	2,500	2,500	2,301	(199)
Interest and Rents				
Interest Earned	25,000	54,000	53,053	(947)
Other Revenue				
Contributions From Other Sources		59,690	224,023	164,333
Gain on Equipment Disposals	5,000	16,650	15,878	(772)
Total Revenues	7,800,000	7,372,568	<u>\$ 7,506,559</u>	<u>\$ 133,991</u>
Fund Balance--October 1, 2005	<u>1,847,839</u>	<u>1,847,839</u>		
Total Budget	<u>\$ 9,647,839</u>	<u>\$ 9,220,407</u>		

The Notes to Financial Statements are an integral part of this statement.

DELTA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
For the Year Ended September 30, 2006

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 1,742,450	\$ 1,421,184	\$ 1,400,489	\$ 20,695
Routine and Preventive Maintenance	1,028,500	1,523,458	1,523,359	99
Local Road				
Construction/Capacity Improvements		-	103,000	(103,000)
Preservation/Structural Improvements	508,800	449,022	419,446	29,576
Routine and Preventive Maintenance	900,800	1,092,589	1,086,519	6,070
Primary Road Structure				
Preservation/Structural Improvements	1,139,780	1,186,033	1,172,270	13,763
Routine and Preventive Maintenance	1,500	1,500	1,048	452
Local Road Structure				
Preservation/Structural Improvements	3,200	3,200	3,177	23
Routine and Preventive Maintenance	3,200	3,200	3,040	160
State Trunkline				
Maintenance	1,000,000	860,000	862,864	(2,864)
Non-Maintenance	-	148,000	148,410	(410)
Maintenance for Other Units		21,500	21,388	112
Equipment Expense--Net	298,000	444,302		
Direct			\$ 965,474	
Indirect			640,790	
Operating			288,540	
Less: Equipment Rentals			<u>(1,436,164)</u>	(14,338)
Distributive Expense	930,000	-	-	-
Administrative Expense--Net				
Administrative Expense	201,000	359,119	489,760	698
Less: Overhead--State Trunkline			(127,639)	
Overhead--Other			(3,700)	
Capital Outlay--Net	(201,000)	(391,150)		
Capital Outlay			315,807	
Less: Depreciation Credits			(706,579)	
Equipment Retirements			<u>(892)</u>	514
Debt Service				
Principal	110,000	110,000	110,000	-
Interest	256,538	256,538	256,537	1
Total Expenditures	7,922,768	7,488,495	<u>\$ 7,536,944</u>	<u>\$ (48,449)</u>
Fund Balance--September 30, 2006	<u>1,725,071</u>	<u>1,731,912</u>		
Total Budget	<u>\$ 9,647,839</u>	<u>\$ 9,220,407</u>		

The Notes to Financial Statements are an integral part of this statement.

DELTA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 4,618,398	\$ 1,823,971	\$1,064,190	\$ 7,506,559
Total Expenditures	4,557,574	1,871,272	1,108,098	7,536,944
Excess of Revenues Over (Under) Expenditures	60,824	(47,301)	(43,908)	(30,385)
Fund Balance--October 1, 2005	1,447,167	121,587	465,014	2,033,768
Restatement to Beginning Fund Balance	(93,389)	(64,737)	(16,899)	(175,025)
Restated Fund Balance--October 1, 2005	1,353,778	56,850	448,115	1,858,743
Fund Balance--September 30, 2006	\$ 1,414,602	\$ 9,549	\$ 404,207	\$ 1,828,358

DELTA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
For the Year Ended September 30, 2006

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits			\$ 15,065	\$ 15,065
Federal Grants				
Contracted				
Hazard Elimination Funds	\$ 200,000			200,000
Surface Transportation Program	761,519			761,519
Economic Development D Funds	230,183			230,183
Negotiated				
Forest Highway Funds	23,734		21,388	45,122
State Grants				
Michigan Transportation Fund				
Engineering	6,940	\$ 3,060		10,000
Allocation	2,518,147	1,108,958		3,627,105
Urban	138,126	60,897		199,023
Snow Removal	-	35,944		35,944
Critical Bridge Funds	259,623	-		259,623
Economic Development Fund				
Rural Primary (D)	163,046	-		163,046
Forest Road (E)	187,483	-		187,483
Target Industries (A)	15,829	-	-	15,829
Contributions From Local Units				
Townships	-	448,939	-	448,939
Charges for Services				
State Trunkline Maintenance			863,023	863,023
State Trunkline Non-Maintenance			148,410	148,410
Subdivision and Road Abandonment Fees		990		990
Salvage Sales			2,301	2,301
Interest and Rents				
Interest Earned	40,055	160	12,838	53,053
Other Revenue				
Private Contributions	59,000	165,023		224,023
Gain on Equipment Disposal	14,713		1,165	15,878
Total Revenues	\$ 4,618,398	\$ 1,823,971	\$ 1,064,190	\$ 7,506,559

DELTA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2006

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 1,400,489			\$ 1,400,489
Routine and Preventive Maintenance	1,523,359			1,523,359
Local Road				
Construction/Capacity Improvements		\$ 103,000		103,000
Preservation/Structural Improvements		419,446		419,446
Routine and Preventive Maintenance		1,086,519		1,086,519
Primary Road Structures				
Preservation/Structural Improvements	1,172,270			1,172,270
Routine and Preventive Maintenance	1,048			1,048
Local Road Structures				
Preservation/Structural Improvements		3,177		3,177
Routine and Preventive Maintenance		3,040		3,040
State Trunkline				
Maintenance			\$ 862,864	862,864
Non-Maintenance			148,410	148,410
Maintenance for Other Units			21,388	21,388
Equipment Expense--Net (Per Exhibit H)	176,531	154,745	127,364	458,640
Administrative Expense--Net (Per Exhibit H)	257,076	101,345		358,421
Capital Outlay--Net (Per Exhibit H)	(339,736)		(51,928)	(391,664)
Debt Service				
Principal	110,000			110,000
Interest	256,537			256,537
Total Expenditures	\$ 4,557,574	\$ 1,871,272	\$ 1,108,098	\$ 7,536,944



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

January 18, 2007

Delta County Road Commission
Board of County Road Commissioners
3000 32nd Avenue North
Escanaba, Michigan 49829-9315

RE: Report on Internal Control Over Financial Reporting and Compliance and
Other Matters Based on an Audit of the Financial Statements Performed in
Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the Delta County Road Commission, a component unit of Delta County, as of and for the year ended September 30, 2006, and have issued our report thereon dated January 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Delta County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Delta County Road Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we noted certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Delta County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a

misstatement of the Delta County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting which are listed as 06-1, through 06-2.

A material weakness is a significant deficiency or combination of significant deficiencies, which results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Delta County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily identify all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Delta County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying comments and recommendations as items 06-05.

We also noted "Other Matters" that we reported to the management of Delta County Road Commission's in the accompanying comments and recommendations as items 06-03 and 06-04.

This report is intended solely for the information of the Delta County Board of Road Commissioners, the Road Commission's management and others within the Road Commission and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

DELTA COUNTY ROAD COMMISSION
COMMENTS AND RECOMMENDATIONS

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that could adversely affect the Delta County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Delta County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Listed below are significant deficiencies in the internal control.

SIGNIFICANT DEFICIENCIES

Receipting Transaction Cycle

Finding 06-01

Condition:

1. One person is involved in writing receipts, preparing transmittal advices, posting receipts and reconciling the receipts with the receipt register, transmittal advice and county treasurer's receipt.
2. The receipts register does not contain receipt numbers, so it is difficult to scan the register to verify that all receipt numbers are accounted for.
3. Voided receipts are not kept "intact," and an explanation for the void is not indicated along with supervisory approval for the voided receipt.
4. Not all monies received by the Road Commission are receipted for immediately upon receipt (state checks).

Criteria: Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, segregation of duties, access restrictions to and accountability for resources and records and proper documentation of transactions. The Michigan Department of Treasury, Uniform Accounting Procedures Manual states, "All copies of voided or canceled receipts must be retained in the receipt book." Strong internal control activities require for the maintenance of original source documentation to be kept intact. According to the Michigan Department of Treasury, Uniform Accounting Procedures Manual, it states, in part "if computerized receipts are issued, all receipts triplicate copies should be printed and retained in numerical order."

Recommendation: We recommend that the Road Commission implement the following procedures as necessary:

- a) Segregating the duties of receipting, preparing the transmittal, posting receipts and reconciling monthly receipts.
- b) All copies of voided receipts are properly voided and kept intact and an explanation given for the reason for the "void" as well as supervisory approval.
- c) Account for the sequence of receipt numbers.
- d) All monies received by the road commission should be receipted for immediately upon receipt (this should include state checks).

DELTA COUNTY ROAD COMMISSION
COMMENTS AND RECOMMENDATIONS

SIGNIFICANT DEFICIENCIES (Continued)

Inventory

Finding 06-02

Condition: We randomly selected 25 stock items from the 110 inventory account and 1 from the Sign Inventory. We compared the inventory status report with the actual counts to determine the accuracy of the inventory status reports.

Findings: There were 7 out of 25 inventory items that were not in agreement with the inventory status report and one discrepancy with the sign inventory. The discrepancies were over and under the inventory status report. However, the net dollar value was not significant when projecting the error to the population. There are weaknesses in the internal control over inventory that resulted in the variances found.

Criteria: All assets must be safeguarded and detailed records must be reconciled to control totals.

Recommendation: We recommend that physical inventory be performed on the faster moving parts as well as high priced inventory (culverts/signs) on a more frequent basis. More care should be taken when conducting the physical inventory for parts (which was an explanation for two of the variances).

OTHER MATTERS

Board of Commissioners Compensation

Finding 06-03

Condition: The county board of commissioners approved the Road Commissioners compensation to include the same per diem policy as the county board of commissioners plus necessary mileage at the board approved rate. The Road Commission pays the travel compensation through the vendor invoice system instead of payroll.

Criteria: Travel to and from meetings is not authorized unless part of the original compensation package. Per IRS rules and regulations all compensation is taxable and shall be reported as wages.

Recommendation: We recommend that the Road Commission include the travel compensation for in house meetings as part of the payroll system.

Investment Policy

Finding 06-04

Condition: The Road Commission does not have an updated investment policy that contains credit risk assessments and disclosures for investments as required by GASB Statement No. 40. The Road Commission does not have a Check 21 Act policy approved by the board.

DELTA COUNTY ROAD COMMISSION
COMMENTS AND RECOMMENDATIONS

OTHER MATTERS (Continued)

Criteria: For years beginning after June 30, 2004, GASB Statement No. 40 requires governmental units to have an investment policy that contains investment risk assessments and additional disclosure requirements for investments.

Check 21 Act allows banks to transmit checks for payment electronically and requires entities to have a policy that addresses electronic checks.

Recommendation: We recommend that the Road Commission use the 2006 “Uniform Accounting Procedures Manual for County Road Commissioners” to formulate an updated investment policy that includes the requirements for GASB Statement No. 40 and have the board adopt the new policy. We also recommend that the board adopt a policy that addresses electronic checks.

NONCOMPLIANCE WITH STATE STATUTES

Our review and study for compliance with State statutes and regulations revealed the following noncompliance procedures:

Budget Violation

Finding 06-05

During the fiscal year ended September 30, 2006, expenditures were incurred in excess of amounts appropriated in the amended budgets as follows:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Local Road Construction		\$ 103,000	\$ (103,000)
State Trunkline Maintenance	\$ 860,000	862,864	(2,864)
State Trunkline Non-Maintenance	148,000	148,410	(410)
Equipment Expense--Net	444,302	458,640	(14,338)

Criteria: The expenditure of funds in excess of appropriations is contrary to the provisions of Public Act 2 of 1968, as amended. The act requires the board of commissioners to make budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Directive: We direct the Road Commission to develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.